SOUTH CAROLINA
FEDERAL
CREDIT UNION

May 20, 2014

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comment to the Proposed Prompt Corrective Action – Risk-Based Capital Regulation

Dear Mr. Poliquin:

Thank you for the opportunity to comment on this proposed regulation. We feel the NCUA should withdraw the proposal as it has not demonstrated the need for this rule. The financial health of the credit union system demonstrates this proposal is not justified.

South Carolina Federal Credit Union (SC Federal) is a community-chartered credit union with 17 branches throughout Charleston, Georgetown, and Columbia. South Carolina Federal has experienced phenomenal growth from its beginnings in 1936 when just 14 Charleston Navy Yard employees contributed five dollars each to form the credit union with just $70 in assets. Now, more than 150,000 members own and belong to the nonprofit financial cooperative, which has more than $1.3 billion in assets.

South Carolina Financial Solutions, LLC (SCFS), a wholly owned subsidiary, was created to nourish and support our belief that credit unions must collaborate to survive. SCFS offers a variety of solutions from Insurance offered directly to SC Federal members to Benefits, Talent Management, and Indirect Lending offered to our credit union clients. Our CUSO provides necessary services to our members and other credit unions.

Margins are squeezed. Resources are limited. Regulatory burdens are increasing. The need to grow, maintain or reduce expenses, and generate non-interest income has become universal in the credit union industry. This proposed regulation will do much to suppress or eliminate a credit union's ability to achieve these goals.

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Specific Issues

The CUSO investment risk metric of 250% is excessive especially as compared to other risk ratings. The information provided regarding the proposed regulation does not support the weighting. It is arbitrary with no analytical basis. The NCUA's intent to apply the CUSO risk rating to both the initial investment and to the appreciated value of the CUSO penalizes successful CUSOs.

The rule doesn't take into consideration some important factors:

- The types of services the CUSO offers
- Whether the investment represents necessary operational expenses that would be otherwise incurred
- Whether the amount invested is material
- Whether the CUSO has a history of profitability
- Whether the investment amount has been fully recovered by the credit union through savings or income generated by the CUSO

The proposed risk weights for non-delinquent first mortgage and real estate loans are too high. They penalize credit unions for loans that are not inherently risky. Again adequate analysis would not support this weighting. An alternative structure that still incorporates an element of concentration risk for non-delinquent first mortgage real estate loans would be to reduce the number of concentration risk buckets from 3 to 2 and introduce larger ranges of asset concentrations.

The proposed rule shows a bias against investments. Again, it is not supported by adequate analysis. The current risk-weights don't accurately reflect the interest rate risk for short-term and middle-term investments such as those under a 5 year maturity. Risk weights based on years to maturity only captures potential interest rate risk and do not take into consideration the credit risk of the security purchased. The risk weight should also factor in the issuer. An alternative risk-weight system for investments that doesn't penalize credit unions for all investments with an over a year maturity and takes into consideration the issuer is preferred.

With regards to MBLs, any final rule should give credit to credit unions with proven minimal losses in business lending. Risk-weights should also be broken down for types of loans such as agricultural MBLs or commercial real estate MBLs.

The corporate paid-in-capital risk-weight of 200% is too high. The corporate credit union structure is a less risky asset than it was during the financial crisis. A weight that reflects the actual risk for paid-in capital to corporate credit unions and supported by current analysis would be preferred.

Removing Goodwill will negatively affect credit unions that have had recent mergers by failing to allow them to fully realize the previously accounted for benefit. It will present a disincentive for healthy credit unions to become merger partners for troubling or failing credit unions because of the possible significant negative effect to their risk-based net-worth ratio. Goodwill should be added back into the numerator for the risk-based capital ratio.

We have serious concerns about the legal authority of NCUA to enact individual minimum capital requirements. This portion of the regulation undermines the entire purpose of the rule. This section should be removed from any final rule.

Finally, the 18 month proposed implementation time period is not nearly enough time for credit unions to make changes to their balance sheets in a safe and sound manner. Any implementation period should be at least 3 years from the passage of any final rule in order to give credit unions enough time to raise capital through retained earnings or make changes in their operations. A 3 year implementation period more appropriately compares to the time frames given to the banking industry by their regulators during the implementation of the BASEL standards.

We appreciate the opportunity to comment on this proposed regulation. I hope you understand how critical it is for us and the credit union industry that this regulation be modified significantly before it is finalized.

Sincerely,

Bonnie K. Ciuffo, CPA, CIA
President
South Carolina Financial Solutions, LLC.